

LOWELL LIGHT & POWER
LOWELL, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008



Vredeveld Haefner LLC

LOWELL LIGHT & POWER

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INDEPENDENT AUDITORS' REPORT

November 18, 2008

Members of the Board
Lowell Light & Power
Lowell, Michigan

We have audited the accompanying financial statements of Lowell Light & Power, (an enterprise fund of the City of Lowell, Michigan), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the management of Lowell Light & Power. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in note 1, the financial statements present only the Lowell Light & Power enterprise fund and do not purport to, and do not present fairly the financial position of the City of Lowell, Michigan, or the changes in its financial position or cash flows in conformity with accounting principals generally accepted in the United States of America.

Lowell Light & Power has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lowell Light & Power enterprise fund as of June 30, 2008, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on Lowell Light & Power's basic financial statements. The operating schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Vredeveld Haefner LLC

BASIC FINANCIAL STATEMENTS

LOWELL LIGHT & POWER

PROPRIETARY FUND STATEMENT OF NET ASSETS

JUNE 30, 2008

Assets

Current assets

Cash and cash equivalents	\$ 154,987
Investments	1,345,567
Restricted cash and cash equivalents	466,829
Restricted investments - MPPA trust	414,479
Accounts receivable	730,088
Inventory	8,765
Prepaid expenses	36,803

Total current assets 3,157,518

Non-current assets

Restricted cash and cash equivalents	365,767
Advance receivable from Michigan Public Power Association	49,313
Capital assets	
Land	199,157
Construction in progress	27,346
Vehicles, plant and equipment	16,267,101
Accumulated depreciation	(8,277,356)

Total non-current assets 8,631,328

Total assets 11,788,846

Liabilities

Current liabilities

Accounts payable	386,700
Accrued liabilities	92,682
Due to other funds	24,348
Current portion of bonds payable	150,000
Customer deposits	184,673

Total current liabilities 838,403

Non-current liabilities

Compensated absences	32,572
Bonds payable	4,360,778

Total non-current liabilities 4,393,350

Total liabilities 5,231,753

Net assets

Investment in capital assets net of related debt	3,705,470
Restricted for debt service	409,863
Unrestricted	2,441,760

Total net assets \$ 6,557,093

The accompanying notes are an integral part of these financial statements.

LOWELL LIGHT & POWER
PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

Operating revenue	
Sales	\$ 5,632,852
Late fees	57,578
Other	<u>84,366</u>
Total operating revenue	<u>5,774,796</u>
Operating expense	
Operations and maintenance	5,020,881
Depreciation	<u>640,557</u>
Total operating expense	<u>5,661,438</u>
Operating income (loss)	<u>113,358</u>
Non-operating revenue (expense)	
Interest income	118,538
Gain on asset disposal	1,062
Interest expense	<u>(217,736)</u>
Total non-operating revenue (expense)	<u>(98,136)</u>
Income (loss) before transfers and extraordinary gain	15,222
Transfers	
Transfers out to the City of Lowell	<u>(237,809)</u>
Changes in net assets	(222,587)
Net assets, beginning of year	<u>6,779,680</u>
Net assets, end of year	<u>\$ 6,557,093</u>

The accompanying notes are an integral part of these financial statements.

LOWELL LIGHT & POWER

PROPRIETARY FUND STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2008

Cash flows from operating activities	
Receipts from customers and users	\$ 5,813,222
Payments to employees	(1,479,742)
Payments to suppliers	<u>(3,564,359)</u>
Net cash provided by (used in) operating activities	<u>769,121</u>
Cash flows from non-capital financing activities	
Due from other funds	469,457
Advance to MPPA	(2,123)
Transfers out	<u>(237,809)</u>
Net cash provided by (used in) non-capital financing activities	<u>229,525</u>
Cash flows from capital and related financing activities	
Interest payments	(215,433)
Payments on bonds	(145,000)
Acquisitions of capital assets	<u>(163,042)</u>
Net cash provided by (used in) capital and related financing activities	<u>(523,475)</u>
Cash flows from investing activities	
Purchase of investments	(494,313)
Interest income	<u>116,157</u>
Net cash provided by (used in) investing activities	<u>(378,156)</u>
Net increase (decrease) in cash and cash equivalents	97,015
Cash and cash equivalents, beginning of year	<u>890,568</u>
Cash and cash equivalents, end of year	<u>\$ 987,583</u>
Cash and cash equivalents consists of the following captions on the statement of net assets:	
Cash and cash equivalents	\$ 154,987
Restricted cash and cash equivalents - current	466,829
Restricted cash and cash equivalents - non-current	<u>365,767</u>
	<u>\$ 987,583</u>

(continued)

The accompanying notes are an integral part of these financial statements.

LOWELL LIGHT & POWER
PROPRIETARY FUND
STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED JUNE 30, 2008

Cash flows from operating activities

Operating income (loss)	\$ 113,358
Adjustments to reconcile operating income to net cash provided by (used in) operating activities	
Depreciation	640,557
Change in operating assets and liabilities which provided (used) cash	
Accounts receivable	38,426
Inventory	(5,315)
Prepaid expenses	(4,738)
Accounts payable	2,920
Accrued liabilities	(18,149)
Due to other funds	(2,174)
Compensated absences	(9,100)
Customer deposits	<u>13,336</u>

Net cash provided by (used in) operating activities	<u>\$ 769,121</u>
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(concluded)

The accompanying notes are an integral part of these financial statements.

LOWELL LIGHT & POWER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lowell Light & Power, Lowell, Michigan (the "Utility") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

Lowell Light & Power is an enterprise fund of the City of Lowell (the City). It operates under direction of the City Charter and City Council resolution. The Utility provides electric services to users in the City of Lowell and portions of the surrounding area. On June 29, 2007 the City sold the Cable Television system and related cable television and internet system infrastructure to a private party.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of Lowell Light & Power. There are no component units to be included. The criteria for including a component unit include significant operational or financial relationships with the Utility.

Measurement Focus and Basis of Accounting

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Measurement focus refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. The principal operating revenues of the enterprise fund is charges for services. Operating expenses of the Utility include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Utility's policy to use restricted resources first, then unrestricted resources as they are needed. An exception to this policy is restricted investments held in the MPPA trust which may be used for payments to the MPPA for supply contract and other costs. The balance of these investments has been designated by the board for future rate stabilization purposes.

LOWELL LIGHT & POWER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Utility has elected not to follow subsequent private-sector guidance.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Utility considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments are recorded at fair value. Investments - MPPA Trust are held in trust and can only be disbursed to the MPPA for purchased power or specified MPPA payment purposes.

State statutes authorize the Utility to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Banker's acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

Receivables

All receivables are reported at their net value. Allowance for uncollectible receivables was \$5,981 at year end.

LOWELL LIGHT & POWER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

Inventories

Inventories consist principally of diesel fuel and materials and supplies which are generally used for or operations. Inventories are stated at cost using the first-in first-out (FIFO) method.

Capital Assets

Capital assets are stated at cost and include items defined by the Utility as assets with an initial, individual cost of more than \$100 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

	Years
Vehicles	5-6
Plant and equipment	5-50

Compensated Absences

Substantially all Utility employees are granted vacation and sick leave, which accumulates subject to per employee maximums. These hours vest with each employee however, only the accumulated vacation is payable upon termination or retirement. The related liability for accumulated vacation has been recorded as a long-term liability on the financial statements.

Risk Management

The Utility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2008, the Utility carried commercial insurance to cover risks of losses. The Utility has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

Restricted Assets

Restricted assets consist of amounts set aside to meet debt covenants, customer deposits and assets held in the MPPA trust.

LOWELL LIGHT & POWER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

2. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and cash equivalents and investments are as follows:

	<u>Total</u>
Cash and cash equivalents	\$ 154,987
Investments	1,345,567
Restricted cash and cash equivalents - current	466,829
Restricted Investments - MPPA trust	414,479
Restricted cash and cash equivalents - long term	<u>365,767</u>
	<u>\$2,747,629</u>

Cash and cash equivalents and investments captions consist of the following at June 30, 2008:

Deposits	\$ 987,583
Mutual funds and securities	<u>1,760,046</u>
Total	<u>\$2,747,629</u>

The deposits are in two financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the Utility and a specific fund or account. They are recorded in the Utility's records at fair value. Interest is recorded when earned.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Utility's deposits may not be returned. State law does not require, and the Utility does not have, a policy for deposit custodial credit risk. As of year-end, \$852,524 of the Utility's bank balance of \$1,052,524 was exposed to custodial credit risk.

Investments

The Utility choose to disclose investments by type. As of year-end, the Utility had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Source</u>
Pooled investment accounts	N/A	\$414,479	Unrated	
Money market accounts	N/A	81,162	Unrated	
GNMA Pool	Through 2016	285	Unrated	
US Government and Agency Securities	Through 2011	1,149,673	Unrated	
Corporate Bonds	Through 2011	<u>114,447</u>	Unrated	
		<u>\$1,760,046</u>		

LOWELL LIGHT & POWER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1, the summary of significant accounting policies. The Utility's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each type of investment is identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1, the summary of significant accounting policies. The investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year end.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Utility does not have a policy for investment custodial credit risk. Of the above \$1,760,046 of investments, the Utility has a custodial credit risk of \$1,264,405 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. The Utility's custodial credit risk exposure related to the above pooled and money market fund investments cannot be determined because the Utility's investments do not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1, the summary of significant accounting policies. The Utility investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

3. INTERFUND TRANSACTIONS

Balances reported as due to other funds represent balances due to various City of Lowell funds. Balances reported as transfers out represent payments from the utility to the City of Lowell general fund.

LOWELL LIGHT & POWER

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

4. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets, not being depreciated				
Land	\$ 199,157	\$ -	\$ -	\$ 199,157
Construction in Progress	684	26,662	-	27,346
Total capital assets, not being depreciated	199,841	26,662	-	226,503
Capital assets, being depreciated				
Vehicles	650,432	-	15,800	634,632
Plant and equipment	15,497,733	136,380	1,644	15,632,469
Total capital assets, being depreciated	16,148,165	136,380	17,444	16,267,101
Less accumulated depreciation for:				
Vehicles	522,936	61,936	15,800	569,072
Plant and equipment	7,130,790	578,621	1,127	7,708,284
Total accumulated depreciation	7,653,726	640,557	16,927	8,277,356
Net capital assets, being depreciated	8,494,439	(504,177)	(517)	7,989,745
Capital assets, net	\$8,694,280	\$(477,515)	\$ (517)	\$ 8,216,248

5. OTHER POST EMPLOYMENT BENEFITS

The City provides health care insurance benefits to retired full-time employees. Currently there are 4 retirees eligible. The Utility recognize the cost of the post employment health care benefits when the payments are made. During 2008, the amount expended for post employment benefits was \$30,640.

LOWELL LIGHT & POWER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

6. LONG-TERM DEBT

The following is a summary of the debt transactions of the Utility for the year ended June 30, 2008.

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>
Light & Power Fund					
Electric Supply System Revenue Bonds, Series 2002; payable in annual amounts of \$130,000 to \$350,000 through 2027, with interest ranging from 3.0% to 5.0%	\$4,760,000	\$ -	\$145,000	\$4,615,000	\$150,000

The above balance does not include unamortized discount and issuance costs of \$104,222.

The annual requirements to amortize all debt outstanding as of June 30, 2008 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 150,000	\$ 207,944
2010	155,000	202,603
2011	160,000	196,593
2012	170,000	189,993
2013	175,000	183,093
2014-2018	990,000	799,120
2019-2023	1,235,000	549,820
2024-2028	1,580,000	205,500
Total	\$4,615,000	\$2,534,666

7. DEFINED BENEFIT PENSION PLAN

Plan Description

The Utility participates with the City in a defined benefit pension plan. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

LOWELL LIGHT & POWER

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

Funding Policy

The City is required to contribute at an actuarially determined rate, which for the current year was 11.43% of annual covered payroll. Participating employees are not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by the City, dependent on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended June 30, 2008, the Utility's share of the City's annual pension cost was \$102,316 for MERS which was equal to the Utility's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; and (b) projected salary increases of four and one-half (4.5) percent per year compounded annually based on inflation and (c) additional projected salary increases of 0.0% to 4.2% per year based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The difference in investment income between expected return and market return is recognized over a 10-year period as the rate of 10% per year. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information			
Fiscal Year	Annual Pension	Percentage of APC	Net Pension
<u>Ending</u>	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
6/30/06	\$ 97,370	100%	-
6/30/07	106,317	100%	-
6/30/08	102,316	100%	-

The schedule of funding progress for the City of Lowell, Michigan, is included in the City's financial statements for the year ended June 30, 2008.

8. JOINT VENTURE

The Lowell Light & Power is a member of a joint venture, the Michigan Public Power Agency (MPPA), with 13 other municipal electric systems. The MPPA was formed to undertake the planning, financing, development, acquisition, construction, improvement, operation and maintenance of projects to supply electric power and energy for present or future needs of its members. Each MPPA member is a municipal corporation organized under the laws of the State of Michigan and owns and operates a municipal electric system. Effective in October 2005, the members of the power pool (one of MPPA's programs) gave their required five year notice of withdrawal from the pool which will cease on December 31, 2010. Lowell Light & Power is currently in negotiations along with other members of the pool to form a new contract for the sale and purchase of power.

LOWELL LIGHT & POWER

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

Complete financial statements for the Michigan Public Power Agency can be obtained from the administrative offices at 809 Centennial Way, Lansing, Michigan 48917.

Under the joint venture, the Utility has entered into Power Sales Contracts and Project Support Contracts. These contracts provide for the Utility to purchase from MPPA 1.24% of the energy generated by MPPA's 37.22% ownership in Detroit Edison's Belle River Unit No.1, which became operational in August 1984; 11.86% of MPPA's 4.80% ownership in Consumers Energy's Campbell Unit No. 3, which became operational in September 1980; and 5.63% of the energy generated by MPPA's 100% ownership in Combustion Turbine Project No. 1 (50 mw rated simple cycle combustion turbine generating unit and ancillary support facilities located in Kalkaska, Michigan) which became operational in 2004. These contracts require the Utility to purchase approximately 3, 4.5 and 2.8 megawatts of power, respectively.

For the year ended June 30, 2008, the Utility recognized expenses totaling \$2,710,278 under the terms of the contract which represented approximately \$792,421 for fixed operating costs, \$977,907 for debt service and \$939,950 for the purchase of power. Accounts payable to MPPA totaled \$300,508 at June 30, 2008. Under the terms of its contracts, the Utility must make minimum annual payments equal to its share of debt service and its share of the operating costs of Detroit Edison's Belle River No. 1, Consumers Energy's Campbell Unit No. 3 and Combustion Turbine Project No. 1. Future operating costs are estimated based on 2006 costs adjusted for inflation.

A summary of future contract payments with the MPPA is as follows:

Year Ending June 30	Belle River		Campbell		Combustion Turbine	
	Debt Service	Operating	Debt Service	Operating	Debt Service	Operating
2009	\$ 340,905	\$ 189,991	\$ 493,079	\$ 601,024	\$ 143,634	\$ 25,180
2010	340,911	195,691	411,877	619,054	143,672	25,935
2011	340,962	201,561	413,917	637,626	143,877	26,713
2012	340,960	207,608	415,069	656,755	143,675	27,514
2013	340,918	213,836	415,637	676,457	143,728	28,340
2014-2018	1,704,679	1,169,346	1,174,140	696,751	718,586	154,973
2019-2023	-	-	-	-	718,634	179,657
2024-2027	-	-	-	-	574,904	164,119
Total	\$3,409,335	\$2,178,033	\$3,323,719	\$3,887,667	\$2,730,710	\$632,4315

Debt Service requirements expire in the years 2014, 2018, and 2027 for the Campbell, Belle River and Combustion Turbine Projects, respectively. The above amounts include estimated operating costs for the same period as the Debt Service. The contracts for the Utility's commitment for operating costs to extend beyond these dates are dependent upon the use of the facilities.

The joint venture is a result of an ongoing financial responsibility. The Utility did not have an initial equity interest and does not participate in net income or losses.

OPERATING SCHEDULES

LOWELL LIGHT & POWER

SCHEDULE OF OPERATING REVENUES AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2008

Operating revenue

Sales	
Residential	\$ 1,574,159
Commercial	3,847,582
Resale - Belle river	58,900
Resale - Combustion turbine Project	3,116
Resale - MPPA	142,184
Standby power and security lights	6,911
Late fees	57,578
Other	<u>84,366</u>

Total operating revenue	<u>5,774,796</u>
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Operating expense

Operations and maintenance	
Generation	
Fuel	102
Maintenance	27,781
Operating supervision/engineering	12,595
Generation	1,750
Other employee compensation	18,321
Other	<u>10,400</u>

Total generation	<u>70,949</u>
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Purchase power	
Campbell	1,592,058
Belle river	798,460
Combustion turbine project	319,760
Other	<u>581,607</u>

Total purchased power	<u>3,291,885</u>
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Distribution	
Maintenance	
Overhead lines	176,442
Street lighting	3,317
Meters	9,122
Structures	73,029
Line transformers	2,080
Operating supervision and engineering	52,073
Load dispatching	3,730
Substation	10,168
Underground lines	29,647
Other	152,977
Customer installation	<u>23,682</u>

Total distribution	<u>536,267</u>
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(Continued)

LOWELL LIGHT & POWER

SCHEDULE OF OPERATING REVENUES AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2008

Operating expense	
Operations and maintenance	
Customer accounting	
Meter reading	\$ 58,067
Customer records and collections	76,868
Uncollectible accounts expense	4,607
Customer assistance	13,461
Supervision	12,969
Other	<u>29,082</u>
Total customer accounting	<u>195,054</u>
General and administrative	
Legal and accounting	17,484
Other employee compensation - unallocated	245,026
Payroll tax - unallocated	69,061
Pension and benefits - unallocated	306,772
Injuries, damage, and safety - unallocated	28,276
Administrative and general wages	116,533
Supplies	63,200
Demonstration, sales and advertising	12,867
Insurance	18,967
Conferences and special meetings	32,698
Other	<u>15,842</u>
Total general and administrative	<u>926,726</u>
Total operations and maintenance	5,020,881
Depreciation	<u>640,557</u>
Total operating expense	<u>5,661,438</u>
Operating income (loss)	<u>\$ 113,358</u>

(Concluded)



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November 18, 2008

Board Members
Lowell Light & Power
City of Lowell, Michigan

In planning and performing our audit of the financial statements of Lowell Light & Power (the "Utility") for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Utility's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the entity's financial statements will not be prevented or detected by the entity's internal control. We believe the following deficiency constitutes a material weakness.

The Utility does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles including procedures to present required financial statement disclosures. The organization has determined that any benefits derived from eliminating the above deficiency would not exceed or justify the costs to do so.

This report is intended solely for the information and use of the Board and Management of Lowell Light & Power, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Orlando Hoofner LLC